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UNDP FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

REVISED BUDGET ESTIMATES FOR THE BIENNIUM 1994-1995

Report of the Advisory Committee on Administrative and Budgetary Questions

1. In accordance with regulation 9.5 of the Financial Regulations of the United Nations Development Programme (UNDP), the Advisory Committee on Administrative and Budgetary Questions (ACABQ) has considered the revised budget estimates of UNDP for 1994-1995, as contained in an advance copy of document DP/1994/35. In accordance with financial regulation 5.1, the Advisory Committee has also considered a report on trust funds established by the Administrator in 1993 (DP/1994/34/Add.3) and a summary of financial information on the trust funds established since 1981 (DP/1994/34/Add.2).

2. The Advisory Committee has also considered the following matters, included in document DP/1994/35: (a) the regional service centre concept (decision 93/35, para. 9); (b) UNDP field presence in the Baltic States and the Commonwealth of Independent States (decision 93/35, para. 17); (c) the piloting of short-term, non-permanent contracts (decision 93/35, para. 30); and (d) transitional measures (decision 93/35, para. 19). During its consideration of these matters, the Committee met with the Administrator of UNDP and his representatives, who provided additional information and complementary documentation for the review of the Committee.

3. The Advisory Committee was informed that projections of voluntary contributions for the 1994-1995 biennium have been revised from $1,970 million reported to the Committee last year (DP/1993/46, para. 5) to $1,862.5 million, or a decrease of 5.8 per cent, as the assumptions about the growth of UNDP core resources have not yet materialized.

4. As shown in table A of document DP/1994/35, the revised budget estimates for the 1994-1995 biennium for UNDP as a whole amount to $607,882,000 gross

($571,182,000 net). The Administrator proposes a total decrease of $20,539,100 in the revised estimates, comprising a volume decrease of $7,609,600 and a cost reduction of $12,929,500, as result of currency release, inflation and other cost adjustments. The Advisory Committee was informed that the Administrator is committed to a policy of continued budgetary restraint.

5. The revised budget estimates for UNDP core activities amount to $380,001,900 gross ($343,301,900 net). The Administrator proposes a decrease of $9,163,700 or 2.6 per cent in the core budget, as noted in paragraphs 4-7 of document DP/1994/35, resulting from currency release, partially offset by inflation and other cost adjustments. No volume adjustments are proposed in the core budget.

6. With regard to programme support and development activities, the Advisory Committee was informed that this would probably be the last time that the administrative budget of the Office of Project Services (OPS) would be submitted as part of the overall UNDP budget proposal. The revised budget estimates for OPS, funded from UNDP general resources, amount to $31,126,200, reflecting a decrease of $4,903,400 or 13.6 per cent from the approved appropriation (decision 93/35, para. 32), primarily as the result of the abolition of 11 posts funded from general resources (one Professional and 10 General Service posts). The revised staffing table of OPS also includes the abolition of one Professional and the addition of 6 General Service posts funded from extrabudgetary resources. A breakdown of the OPS revised budget for 1994-1995 is contained in document DP/1994/62/Add.3, submitted by the Executive Director of OPS, with his report on ways of establishing the Office as a separate and identifiable entity (DP/1994/62). The Advisory Committee is reporting separately in document DP/1994/57 on OPS (see in particular annexes 1 and 2 of that report on the budget of OPS).

7. The Advisory Committee notes that the revised United Nations Volunteers (UNV) administrative budget, chargeable to general resources under the biennial budget, amounts to $31,241,000 (table A). The revised estimates include a total decrease of $466,300, as a result of the reduction of 2 Professional and 2 General Service posts based on the staffing formula approved by the Governing Council (decision 88/46, paras. 10-12). The Committee further notes the participation of UNV specialists in peace-keeping and humanitarian activities in the field under trust funds (290 volunteers out of 2,085 volunteers as at 31 December 1993). This is a welcome development that has previously been encouraged by the Committee (DP/1993/46, para. 11). The Committee intends to comment further on the role of UNV in peace-keeping operations when it examines the report of the Secretary-General (A/48/945).

8. The Advisory Committee takes note of the revised budget estimates of the United Nations Revolving Fund for Natural Resource Exploration (UNRFNRE) and the United Nations for Science and Technology for Development (UNFSTD). As discussed in paragraph 13 of document DP/1994/35, in view of the precarious financial situation of these trust funds, which are administered by UNDP within the structure of the biennial budget, the Administrator proposes to phase out 12 posts (4 Professional and 8 General Services posts) by 31 December 1994. The revised budget estimates for 1994-1995 amount to $2,357,000, reflecting a decrease of 44.5 per cent from the approved appropriation (table A).

9. In paragraphs 14-22 of his report, the Administrator reviews the progress made and the experience gained in the implementation of the regional service centre concept, as requested by the Governing Council (decision 93/35, para. 9). The Advisory Committee was informed that the results of contracting with an international accounting firm to provide a range of audit and accounts examination services has been satisfactory. The firm of Price Waterhouse in Kuala Lumpur, Malaysia, was awarded a one-year contract in August 1993, in the amount of $300,000, to perform in each of the 24 UNDP field offices of the Asia and Pacific region quarterly accounts examination and internal audit services. Price Waterhouse in Kuala Lumpur acts as the main contractor, while other Price Waterhouse offices in the region carry out the respective assignments in each location.

10. With this approach, the Advisory Committee was informed, UNDP has been able to increase significantly its internal audit coverage. Field offices that were audited at best once every five years are now audited every year. Based on the experience gained, a number of benefits are identified in the report (para. 17).

11. The Advisory Committee notes that the concept of a regional service centre has provided a basis for the expansion of internal audit services. In this regard, the Committee recalls that in paragraph 38 of its report DP/1993/46, it had requested the Administrator to include in his report, inter alia, a breakdown of the costs incurred by the contractor, indicating which relate to field offices and which to the regional service centre. Original estimates for the regional service centres in Asia and Africa (DP/1993/45, para. 107) were in the amount of $2,030,000; the cost to the UNDP core budget was $880,000, with the balance to be apportioned to OPS and UNFPA. The Committee notes that this cost breakdown was not included in the report of the Administrator and requests the Administrator to report on the subject in the context of the biennial budget submission for 1996-1997.

12. The Advisory Committee also observes that a national officer has been assigned to the centre as an auditor "to service the region and act as DAMR (Division of Audit and Management Review) liaison with the contractor" (para. 19). The Committee notes that this is a departure from the approach originally envisaged of posting an international Professional as the manager of the regional service centre, who would report "directly to each line manager at headquarters with responsibility for the services being performed" (DP/1993/45, para. 103). The Committee observes that the rationale for this departure has not been adequately explained.

13. In accordance with paragraphs 16 and 17 of decision 93/35, the Administrator reports in paragraphs 23-27 of his report on: (a) the use of UNDP core budget resources towards the UNDP field presence in the Commonwealth of Independent States and (b) the concluding of formal agreement with the United Nations on the joint funding of the United Nations interim offices in the Commonwealth of Independent States and Georgia.

14. The Advisory Committee notes that the United Nations and UNDP signed a memorandum of understanding with respect to the operations and joint funding of the interim offices on 28 October 1993. The Committee was informed that, pursuant to General Assembly resolution 48/209 of 21 December 1993, the

memorandum of understanding signed by the United Nations and UNDP, on 28 October 1993, on the collaboration between these two organizations, is being amended. According to the representatives of the Administrator, the cost-sharing formula will remain approximately the same. Total recurrent costs (excluding staff costs of established posts) and start-up office costs will, in principle, be equally shared by the United Nations and UNDP, with the understanding that the United Nations contribution will be limited to a total amount equivalent to the number of offices times $40,000 per year.

15. The Advisory Committee notes that in its resolution 48/209 of 21 December 1993, the General Assembly provided guidance on future operations of the United Nations offices (former interim offices). Accordingly, heads of these offices in Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Ukraine and Uzbekistan have now been designated resident coordinators and UNDP remains responsible for the administration of the offices.

16. The Advisory Committee recalls that the total costs of the United Nations offices and of the UNDP temporary offices in the newly independent States of the former Soviet Union amount to $7.8 million for the 1994-1995 biennium (DP/1993/45, table V.8), of which $4.8 million ($2.3 million for the interim offices and $2.5 million for the temporary offices) were approved by the Governing Council to be allocated from the resources of the UNDP core budget (decision 93/35). The Committee notes that the Administrator does not propose a revision to the provisions approved for 1994-1995.

17. As requested by the Governing Council (decision 92/37, para. 13), the Administrator reports in paragraphs 28-34 on the experience gained with the new contractual arrangements for activities of limited duration and on his consultations with the International Civil Service Commission (ICSC) on the subject. This new contractual instrument was approved by the Governing Council on a pilot basis (decision 92/37, para. 11) in order to cover the employment of individuals "whose skills are needed for at least six months but clearly not in a continuing, career-oriented function" (DP/1992/40, para. 26). The Advisory Committee was informed that ICSC reviewed the issue of appointments of limited duration at its fortieth session and supported the pilot arrangement of UNDP. The Committee was further informed that this pilot arrangement was formally launched on 1 January 1994, after UNDP had developed its own policies and procedures in consultation with ICSC, as well as with other United Nations organizations, including members of the Joint Consultative Group on Policy (JCGP) and the United Nations Secretariat.

18. The Advisory Committee notes that the new short-term contractual arrangement is framed within the 300 Series of the United Nations Staff Rules. Upon request, the Committee was informed that these arrangements were very similar to the 300 series and that the experience gained with this new arrangement will be taken into account by ICSC when it reverts to the subject of appointments of limited duration at future sessions. The Committee reiterates its view that there should be a unified common system approach to these arrangements and that this matter should be submitted to ICSC, which could make recommendations as appropriate to the General Assembly, in light of the central role of the Assembly with regard to the elaboration of the conditions of service of the United Nations common system.

19. In paragraphs 35 and 36, the Administrator reports on certain reserves established, pursuant to Governing Council decision 93/35, paragraph 18, by which the Council recognized "that the smooth implementation of the proposed budget strategy entails transitional costs". The Advisory Committee notes that the first reserve would be established at $6.4 million for separations budgeted in 1992-1993 but not actually effected during the financial period. The proposal to establish this reserve derives from a recommendation of the Board of Auditors (A/48/5/Add.2, para. 53). The Board considered it more appropriate to disclose the earmarking of funds in respect of proposed staff separations through the setting-up of a reserve than by obligating the funds against the resources of the 1992-1993 biennial budget since the separations concerned had not been formally agreed at 31 December 1993. The second reserve, the Committee was informed, would be established to meet transition costs associated with the smooth implementation of the 1994-1995 budget strategy. Accordingly, this reserve would be set up at $7.2 million, as approved by the Governing Council (decision 93/35, para. 19), to apply the "savings earned in 1993 up to ceiling of 1.5 per cent of the 1992-1993 core appropriation" to fund systems development (including work related to the implementation of the Integrated Management Information System (IMIS)), training and other related costs that underlie many of the staff reductions (DP/1993/45, para. 141).

20. The Board of Auditors reported that as at 31 December 1993, only $3.6 million had been allocated from the reserve of $7.2 million for the specific purpose of meeting transition costs and that UNDP had not determined precisely how the remaining funds were to be utilized (A/48/5/Add.1, para. 55). The Advisory Committee agrees with the Board of Auditor's recommendations that, since the establishment of reserves requires formal approval by the Executive Board, the Executive Board may wish to confirm its agreement to the establishment of these reserves, indicating the length of time the funds should remain available for utilization.

21. With regard to trust funds established by the Administrator in 1993 and prior years (DP/1994/34/Add.2 and Add.3), the Advisory Committee notes that, as at 31 December 1993, from the initial 3 trust funds established by the Administrator in 1982, the number of trust funds has increased rapidly to 75 trust funds and sub-trust funds. In addition, at the end of 1993, there were 77 sub-trust funds established by the Administrator on behalf of 6 trust funds established by the General Assembly (DP/1994/34/Add.2, paras. 4-12).

22. The Advisory Committee recalls the observations of the Board of Auditors in its report on the UNDP financial statements and accounts for the biennium 1992-1993 (A/48/5/Add.1, paras. 77-85) concerning the number of trust funds with deficit balances at the closing of the biennial accounts. Furthermore, the Board has pointed out that many of these trust funds remain inactive, with no operational and financial activity. The Committee was informed by representatives of UNDP of the difficulties in closing down some trust funds and in obtaining reimbursement for support costs provided by UNDP. The Board had noted in this regard that often trust funds rely upon support services covered by UNDP core resources without paying the corresponding support cost, or sometimes as low as 1 per cent of the contribution. The Committee recommends, as indicated by the Board of Auditors, that UNDP review the methodology used to

calculate support costs so as to ensure that the administrative and support costs of trust funds are not subsidized by general resources.

23. The Advisory Committee recommends that UNDP continue its efforts to close down inactive trust funds and to report to the Executive Board, through the Advisory Committee, on the steps taken to streamline the administrative management of trust fund activities, as well as the methodology and the rates to recover support costs from trust funds.